EXCISE Pet 6 Libya XR Pet 10 Libya Pet 14 Libya

Department of State

TELEGRAM

395

CONFIDENTIAL 612

PAGE 01 TRIPOLI 02797 01 OF 02 020926Z

22
ACTION AF-18

INFO OCT-01 EUR-20 NEA-13 OEP-01 INT-06 CIAE-00 DODE-00
PM-05 H-02 INR-08 L-04 NSAE-00 NSC-10 P-03 RSC-01
PRS-01 SS-20 USIA-12 AID-28 E-15 COM-08 TRSY-11 RSR-01
/188 W

R 020754Z DEC 70
FM AMEMBASSY TRIPOLI
TO SECSTATE WASHDC 7167
INFO USINT ALGIERS
AMEMBASSY BEIRUT
AMEMBASSY DHAHRAN
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY TEHRAN
AMEMBASSY BENGHAZI UNN

DEPARTMENT OF STATE A/CDC/MR
REVIEWED BY OJ DATE 8/7/81
PORTIONS DENIED AS INDICATED

Pet 10-3 Libya (22)

Pet 6 Libya 15-2 Libya Sec (2)

C O N F I D E N T I A L SECTION 1 OF 2 TRIPOLI 2797

SUBJECT: OIL NEGOTIATIONS: THE NEXT ROUND IN LIBYA

REF: TRIPOLI 2322 AND 2485 (NOTAL)

1. SUMMARY: LARG'S CONCERN OVER LIBYA'S RELATIVELY SLIM PROVEN OIL RESERVES, DRASTIC DECLINE IN EXPLORATION ACTIVITY BY OIL COMPANIES AND PRESSURE LARG CAN EXERT BECAUSE OF LIBYA'S IMPORTANCE IN PRESENT TIGHT OIL SUPPLY SITUATION ARE ELEMENTS FOR NEW CONFRONTATION OVER LEVEL OF REINVESTMENT IN LIBYA BY OIL COMPANIES. BATTLE LINES WERE DRAWN AT MID-YEAR WHEN LARG BEGAN TO PRESS FOR RENEWED EXPLORATION OR RELINQUISHMENT OF INACTIVE CONCESSIONS, BUT LARG'S ATTENTION WAS DIVERTED BY POSTED PRICE NEGOTIATIONS. INDICATIONS ARE THIS RESPITE IS ABOUT OVER. IF C[illegible]IES' RESPONSES DO NOT SATISFY LARG, AS WE EXPECT WILL BE CASE [illegible] THINK ISSUE WILL EVOLVE FROM LARG PRESSURE FOR MORE EXPLORATION TO INSISTANCE UPON REINVESTMENT OF PORTION OF EARNINGS. HOW SUCCESSFUL LARG MAY BE

CONFIDENTIAL

3

DECLASSIFIED

Tripoli 2797 12/21/70

DECLASSIFIED

Department of State **TELEGRAM**

CONFIDENTIAL

PAGE 02 TRIPOL 02797 01 OF 02 020986Z

IN SUBSTITUTING COERCION FOR INCENTIVE IN INVESTMENT ENVIRONMENT REMAINS TO BE SEEN, BUT DOING SO RISKS LEAVING LIBYA WITH LARGE RELINQUISHMENTS OF ACREAGE FOR WHICH LARG THEN WOULD NEED TO SECURE FINANCING FOR EXPLORATION. END SUMMARY.

2. OVER PAST MONTH OR SO CONSENSUS HAS DEVELOPED AMONG MAJOR OIL PRODUCERS HERE - WHICH EMBASSY SHARES - THAT NEXT CONFRONTATION BETWEEN COMPANIES AND LARG IS MOST LIKELY TO BE OVER LEVEL OF EXPLORATION ACTIVITY. INDICATIVE OF DECLINE IN EXPLORATION SINCE SEPTEMBER 1969 REVOLUTION IS DROP IN NUMBER OF OPERATING DRILLING RIGS FROM 48 THEN TO 13 NOW. IN BOTH CASES ABOUT HALF ARE ENGAGED IN DEVELOPMENT OF PROVEN FIELDS AND OTHER HALF IN EXPLORATION FOR NEW OIL RESERVES. DRILLING OPERATIONS ARE EXPECTED TO DECLINE FURTHER, SO THAT 8 - 10 RIGS WILL BE ACTIVE BY END 1970. AT THIS LEVEL, RIG ACTIVITY WILL BE ONLY ABOUT ONE-THIRD OF PESSIMISTIC ESTIMATES MADE AT BEGINNING OF 1970. DECLINE IN NUMBER OF CREWS ENGAGED IN EXPLORATORY SEISMOGRAPHIC WORK HAS BEEN SIMILARLY SEVERE.

3. REASON FOR DRAMATIC DECLINE IN EXPLORATION IS COMPANIES' IMPAIRED CONFIDENCE IN LARG. MIXTURE OF NEW GOVERNMENTAL CONTROLS, REVENUE DEMANDS AND EROSION OF CONCESSIONARY GUARANTEES AND COMPANY PREROGATIVES HAS CAUSED COMPANIES TO SLOW THEIR SEARCH FOR NEW OIL, WHICH IF FOUND WOULD REQUIRE ADDITIONAL INVESTMENT TO PRODUCE AT TIME WHEN THEY SUSPECT FUTURE LARG ACTIONS WILL FURTHER REDUCE PROFIT EXPECTATIONS.

4. WHILE LIBYA IS MAJOR OIL PRODUCER, ITS PROVEN RESERVES ARE NOT COMPARABLE TO THOSE OF OTHER PRINCIPAL EXPORTERS. LIBYA'S PRODUCTION/RESERVE RATIO GENERALLY IS ESTIMATED TO YIELD ABOUT 20 YEARS OF PRODUCTION AT CURRENT RATE, WHEREAS COMPARABLE FIGURES FOR SAUDI ARABIA WOULD BE 50 - 60 YEARS PRODUCTION. RELATIVELY UNFAVORABLE PRODUCTION/RESERVE RATIO WAS CAUSE FOR CONCERN AMONG SOME UNDER OLD REGIME. HOWEVER, CONCERN WAS OFFICIALLY ARTICULATED FOR FIRST TIME IN POST-REVOLUTION DEVELOPMENT PLAN FOR FY 1970/71 AND WAS PRIMARY MOTIVE FOR PRODUCTION RESTRICTIONS IMPOSED ON COMPANIES IN SECOND AND THIRD QUARTERS OF 1970. CONCURRENT WITH PRODUCTION CONTROLS, LARG BEGAN TO PRESS COMPANIES FOR RENEWAL OF EXPLORATION ACTIVITY, BUT OVERRIDING IMPORTANCE THEN GIVEN TO POSTED PRICE NEGOTIATIONS DIVERTED ITS ATTENTION. PRICE NEGOTIATIONS, RAMADAN FAST, AND 'ID AL-FITR HOLIDAY NOW ARE PAST, AND WE THINK RESPITE FOR COMPANIES ON THIS ISSUE IS ABOUT OVER.

CONFIDENTIAL

DECLASSIFIED

DECLASSIFIED

Department of State

TELEGRAM

CONFIDENTIAL

PAGE 03 TRIPOLI 02797 01 OF 02 020926Z

5. OUR ESTIMATE OF LARG'S INTENTIONS IS SUPPORTED BY RECENT REPORT

B1

THERE SOON WOULD BE WORK FOR DRILLING COMPANIES SINCE LARG SHORTLY WOULD REQUIRE OIL COMPANIES TO RESUME EXPLORATION. SINCE RIGS NOW IN COUNTRY WOULD BE NEED TO FULFILL LARG'S PLANS, BAN ON EXPORT OF RIGS WOULD CONTINUE.

6. MOST COMPANIES HAVE FORESEEN COMING DEMAND FOR EXPLORATION DRILLING AND SOME ARE PREPARING FOR AT LEAST TOKEN COMPLIANCE. WE DOUBT, HOWEVER, THAT WHAT COMPANIES MAY BE PREPARED TO DO WILL SATISFY LARG. IF LARG NOW FOLLOWS THROUGH ON ITS DEMAND OF SIX MONTHS AGO THAT WELLS BE DRILLED OR ACREAGE RELINQUISHED, THERE PROBABLY WILL BE SUBSTANTIAL RELINQUISHMENTS OF INACTIVE (AND UNATTRACTIVE) ACREAGE. IN FACT, SUBSTANTIAL RELINQUISHMENTS - BY GULF, PHILLIPS, SHELL, LIBYAN AMERICAN, AGIP AND CFP SUBSIDIARY CRTLI TOTALING ABOUT 74 THOUSAND SQUARE KILOMETERS - OCCURRED DURING SECOND HALF OF 1970 BECAUSE OF INITIAL PRESSURE FOR EXPLORATION AND CHANGED ECONOMIC FACTORS. HOWEVER, RELINQUISHMENT ALONE WILL NOT SATISFY LARG'S GOAL OF ADDING TO PROVEN RESERVES. TO MEET THIS OBJECTIVE, SU[illegible]TIAL INVESTMENT WILL BE REQUIRED.

7. UNDER THESE CIRCUMSTANCES, WE CONCLUDE LARG WILL MOVE FROM PRESSING FOR EXPLORATION OR RELINQUISHMENT TO DEMANDING REINVESTMENT OF SOME PORTION OF EARNINGS BY PRESENT PRODUCERS. THESE ACTIONS PROBABLY WILL BY ACCOMPANIED BY EFFORTS TO CONCLUDE NEW CONTRACT OR JOINT VENTURE DEALS FOR LNOC, IN WHICH OUTSIDE PARTY WOULD SUPPLY CAPITAL AND BEAR RISK. IN ALL OF THIS, WE THING LARG WILL ATTEMPT TO PROFIT FROM EXAMPLE OF OTHERS - BOTH IN TERMS OF DEVISING MECHANISM FOR SECURING AND CHANNELING REINVESTMENT AND IN TRYING TO AVOID SITUATION, SUCH AS SEEMS TO BE DEVELOPING IN ALGERIA, WHERE LIBYA WOULD BE REQUIRED TO FIND ALTERNATIVE SOURCES OF FINANCE FOR ITS PETROLEUM INDUSTRY AS COMAPNIES OPT OUT RATHER THAN RISK ADDITIONAL INVESTMENT.

CONFIDENTIAL

DECLASSIFIED

Department of State

TELEGRAM

CONFIDENTIAL 608

PAGE 01 TRIPOLI 02797 02 OF 02 020945Z

11
ACTION AF-18

INFO OCT-01 EUR-20 NEA-13 CIAE-00 DODE-00 PM-05 H-02
INR-08 L-04 NSAE-00 NSC-10 P-03 RSC-01 RSR-01 SS-20
USIA-12 AID-28 E-15 COM-08 TRSY-11 OEP-01 INT-06
RSR-01 /188 W

119372

R 020754Z DEC 70
FM AMEMBASSY TRIPOLI
TO SECSTATE WASHDC 7168
INFO USINT ALGIERS
AMEMBASSY BEIRUT
AMEMBASSY DHAHRAN
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY TEHRAN
AMEBASSY BENGHAZI UNN

C O N F I D E N T I A L SECTION 2 OF 2 TRIPOLI 2797

8. WE BELIEVE THAT THIS IS OUTLINE OF NEXT SERIOUS ISSUE TO BE RAISED BY LARG. WE CANNOT FORESEE OUTCOME IN DETAIL, BUT WE EXPECT MOST OF PRESENT CONCESSIONARIES WILL ACCOMMODATE. IF THINGS GO ABOUT AS WE THINK THEY WILL, RESULT WILL NOT DEFINE SOME NEW SEMI-PERMANENT RELATIONSHIP FOR LARG AND COMPANIES [redacted] NOR IS LEVEL OF EXPLORATION/INVESTMENT ONLY ISSUE WHICH IS LIKELY TO ARISE IN REASONABLY NEAR FUTURE. OIL COMPANIES' INTELLIGENCE ON CURRENT THINKING OF PRINCIPAL ARCHITECT OF LARG OIL POLICY, MAHMOUD MAGHRABI, INDICATES THAT LARG INTENDS TO SEEK POSTED PRICE SUPPLEMENT TO SATISFY CLAIM IT MADE DURING RECENT PRICE NEGOTIATIONS FOR TRANSPORTATION ALLOWANCE REFLECTING LOCATIONAL ADVANTAGE LIBYA ENJOYS. PETROLEUM UNDER SECRETARY QIBLAWI RECENTLY CONFIRMED TO EMBOFF THAT THIS CLAIM REMAINS OUTSTANDING IN LARG'S VIEW. IF MAGHRABI IS AS SHREWD AS WE THINK, LARG MAY WAIT UNTIL SUMMER OF 1971 TO RAISE THIS ISSUE, WHEN CURRENT ROUND

CONFIDENTIAL

DECLASSIFIED

Department of State

TELEGRAM

CONFIDENTIAL

PAGE 02 TRIPOL 02797 02 OF 02 020945Z

OF TAX-PRICE INCREASES WILL HAVE BEEN CONCLUDED, AND IT CAN ASSESS ITS BARGAINING STRENGTH IN LIGHT OF PROJECTED OIL DEMAND FOR 1971-72 WINTER SEASON. HOWEVER, THERE IS RELATIONSHIP BETWEEN DEMAND, TAX-PAID COST, PROFITS AND INVESTMENT. THESE ISSUES MAY, THEREFORE, BECOME JOINED DURING COMING ROUND IN LIBYA. GP-4.
PALMER

CONFIDENTIAL

4